

Message Text

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PAGE 01 STATE 179843

14
ORIGIN IO-13

INFO OCT-01 EUR-12 ABF-01 ISO-00 SIG-01 AF-08 ARA-06 EA-07

NEA-10 AID-05 CIAE-00 INR-07 NSAE-00 L-03 EB-07

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TO ALL DIPLOMATIC POSTS

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E.O. 11652: N/A

TAGS: UNDP, EAID

SUBJECT: UNDP: U.S. PROPOSES PURCHASE OF COMMUNIST
CURRENCIES TO HELP SOLVE FINANCIAL CRISIS

REF: (A) STATE 158389 (NOTAL); (B) STATE 169133 (NOTAL);
(C) TUNIS 4914

1. SUMMARY: DURING THE RECENT UNDP GOVERNING COUNCIL IN
GENEVA (JUNE 14-JULY 5) US DEL AMB BENNETT ANNOUNCED THAT
US PROPOSED TO PURCHASE SUBSTANTIAL QUANTITIES OF UNDP'S
ACCUMULATED NON-CONVERTIBLE CURRENCIES. OTHER NATIONS WERE
ALSO ASKED TO JOIN IN NON-CONVERTIBLE CURRENCY PURCHASE.
FOLLOWING MESSAGE SENT PRIMARILY FOR POST INFORMATION BUT
MAY BE USED AS APPROPRIATE FOR UNDP AND GOVERNMENTS.

2. MORE THAN DOLS 30 MILLION (MOSTLY IN COMMUNIST COUNTRY
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PAGE 02 STATE 179843

CURRENCIES) HAVE ACCUMULATED TO UNDP'S ACCOUNT BUT HAVE

PROVEN TO BE VERY DIFFICULT FOR THE PROGRAM TO USE, IN LARGE MEASURE BECAUSE OF THE LACK OF DEMAND IN DEVELOPING WORLD FOR THE KINDS OF GOODS AND SERVICES AVAILABLE FROM THOSE COUNTRIES, AND EXTENDED DELIVERY DATES FOR EQUIPMENT, ETC. THE NON-CONVERTIBLE CURRENCY PROBLEM HAS BEEN TROUBLING UNDP FOR MANY YEARS, BUT HAS BECOME PARTICULARLY

AGGRAVATING AS THE ACCUMULATION OF THESE CURRENCIES CONTINUES IN THE FACE OF A SERIOUS LIQUIDITY CRISIS IN UNDP.

3. DECEMBER 31, 1975, HOLDINGS OF THE SEVERAL CURRENCIES ARE, IN DOLLAR EQUIVALENTS: ALBANIA - DOLS 85,000; ALGERIA - DOLS 187,000; BULGARIA - DOLS 552,000; CHINA - DOLS 3,669,000; CUBA - DOLS 1,268,000; CZECHOSLOVAKIA - DOLS 704,000; DEM. REP. OF GERMANY - DOLS 1,397,000; HUNGARY - DOLS 363,000; NEW ZEALAND - DOLS 1,237,000; POLAND - DOLS 2,739,000; USSR - DOLS 16,032,000; YUGOSLAVIA - DOLS 668,000. AS INDICATED CURRENCIES HAVE ACCUMULATED FROM A FEW NON-COMMUNIST COUNTRIES SUCH AS ALGERIA AND NEW ZEALAND WHICH COULD ALSO TAKE ADVANTAGE OF THIS PROGRAM.

4. DESPITE UNDP'S FINANCIAL CRISIS, THERE HAS UNFORTUNATELY BEEN LITTLE PROGRESS TOWARDS UTILIZATION OF THE EXCESS CURRENCIES. THE U.S. IN AN ATTEMPT TO CUT THROUGH THIS VERY TROUBLESOME PROBLEM AND MAKE A VERY REAL CONTRIBUTION TO IMPROVEMENT OF UNDP'S FINANCIAL SITUATION HAS MADE A BONA FIDE OFFER TO PURCHASE DEPENDING ON OUR NEEDS FOR THE CURRENCIES CONCERNED SIGNIFICANT QUANTITIES OF THE ACCUMULATED CURRENCIES OF THE GOVERNMENTS CONCERNED.

5. THE U.S. WOULD MAKE USE OF THE CURRENCIES PURCHASED FOR EMBASSY EXPENDITURES AND THE LIKE IN THE COUNTRIES OF ORIGIN.

6. IT SHOULD BE NOTED THAT UNDP DOES NOT HAVE CONTROL OF THE ACCUMULATED COMMUNIST COUNTRY CURRENCIES, FOR THEY ARE CREDITED TO BANK ACCOUNTS WITHIN THE CONTRIBUTED LIMITED OFFICIAL USE

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PAGE 03 STATE 179843

ING COUNTRY, WHERE THEY ARE ONLY AVAILABLE TO UNDP FOR DISBURSEMENT AGAINST ACTUAL CONTRACTS.

7. U.S. PROPOSAL WAS STRONGLY WELCOMED BY MANY GOVERNMENTS AND BY UNDP ADMINISTRATION. HOWEVER, DURING THE COUNCIL MEETING AND SUBSEQUENTLY THERE HAS BEEN NO POSITIVE RESPONSE FROM COMMUNIST GOVERNMENTS AND MATTER NOW BEING PURSUED BY US FURTHER IN MOSCOW AND OTHER POSTS.

8. IN DISCUSSIONS WITH GOVERNMENT AND UNDP
OFFICIALS, AS APPROPRIATE, YOU MAY WISH TO CALL ATTENTION

TO THIS U.S. INITIATIVE AND EXPRESS HOPE THAT THIS AND/OR
OTHER MEANS WILL BE UTILIZED TO FIND AN EARLY RESOLUTION
TO THE ACCUMULATED NON-CONVERTIBLE CURRENCY PROBLEM.
THE MOST DESIRABLE LONG-TERM SOLUTION WOULD BE FOR THE
COMMUNIST COUNTRIES TO PROVIDE THEIR UNDP CONTRIBUTIONS
IN CONVERTIBLE CURRENCIES AS DO MOST OF THE OTHER MORE
PROSPEROUS SUPPORTERS OF UNDP. GOVERNMENTS SHOULD BE
AWARE THAT A NUMBER OF PRACTICAL MEASURES INCLUDING OUR
OWN RECENT PROPOSAL DEPEND ON THE CONTRIBUTING GOVERN-
MENTS CONCERNED TO TAKE ACTION. UNTIL SUCH TIME AS
SOLUTIONS ARE FOUND THE REAL CONTRIBUTION OF THE COMMU-
NIST COUNTRIES TO THE DEVELOPMENT ACTIVITIES OF UNDP
CONTINUE TO BE OF THE MOST NOMINAL PROPORTIONS. FOR
FURTHER GUIDANCE THE TEXT OF AMBASSADOR BENNETT'S SPEECH
IS TRANSMITTED.

QUOTE

MY DELEGATION CAN ONLY APPLAUD THE COMPROMISE WHICH
WE HAVE REACHED ON THE QUESTION OF BORROWING AUTHORITY
FOR THE ADMINISTRATOR. I KNOW THE MANY LONG HOURS OF
WORK THAT HAVE GONE INTO THIS SOLUTION AND I COMPLIMENT
ALL THOSE WHO HAVE GIVEN SO MUCH TIME AND EFFORT TO
FINDING THIS SUITABLE RESULT. AS IS WELL KNOWN TO THE
COUNCIL, THE UNITED STATES WAS INITIALLY OPPOSED TO A
GRANTING OF BORROWING AUTHORITY FOR A NUMBER OF REASONS.
WE DID NOT THINK IT A HEALTHY STEP FOR AN ORGANIZATION
JUST BEGINNING TO RECOVER FROM A SERIOUS CRISIS -- IN
HUMAN TERMS WE MIGHT REFER TO IT AS A CRISE DE FOIE.
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PAGE 04 STATE 179843

AT THE SAME TIME WE HAVE UNDERSTOOD THE ADMINISTRATOR'S
FEELING THAT HE MUST HAVE RESERVE AUTHORITY TO BE USED
IN CASE OF EMERGENCY. I TAKE SATISFACTION THAT A FORMULA
MEETING THE NEEDS OF ALL PARTIES HAS BEEN FOUND UNDER
A SOLUTION WE CAN ALL ACCEPT.

AT THIS POINT THE U.S. WISHES TO SUGGEST A MEANS
WHICH WE BELIEVE CAN NOW CONTRIBUTE TO SOLVING SOME OF
THE MORE PRESSING CURRENT FINANCIAL PROBLEMS. IN MAKING
THIS PROPOSAL, I OF COURSE, WISH IN NO WAY TO DETRACT
FROM THE VERY NECESSARY MEASURES NOW UNDER CONSIDERATION
BY THIS COUNCIL TO ACHIEVE LONG-TERM SOLVENCY FOR THE
YEARS AHEAD.

MR. PRESIDENT, THE U.S. HAS SEEN THE UNDP FROM ITS

INCEPTION, AND ITS PREDECESSOR AGENCIES (EPTA AND THE SPECIAL FUND), AS RESPONSIVE NOT ONLY TO ECONOMIC BUT ALSO PEACEMAKING AIMS OF THE CHARTER. IN 1959, WHEN SECRETARY GENERAL HAMMERSKJOLD ENVISIONED A TECHNICAL

ASSISTANCE PROGRAM ULTIMATELY TO EXPEND DOLS 50 MILLION ANNUALLY, WE ENCOURAGED ONE OF OUR MOST DISTINGUISHED CITIZENS, PAUL HOFFMAN, TO LEAVE HIS SECOND RETIREMENT AND TO LEND HIS GENIUS TO THIS CAUSE.

PAUL HOFFMAN EVENTUALLY PLANNED FOR A DOLS 250 MILLION ANNUAL PROGRAM AND LATER AMENDED HIS DREAM UPWARDS TO THE LEVEL OF ONE HALF BILLION DOLLARS PER YEAR.

MY GOVERNMENT HAS ALWAYS SUPPORTED THIS DREAM, WHILE AT THE SAME TIME SEEKING TO ESTABLISH SAFEGUARDS TO ENSURE THAT THE PROGRAM'S APPETITE WOULD NOT EXCEED IT DIGESTIVE CAPACITY.

ON THE RESOURCE SIDE, WE ARE CLOSE TO ACHIEVING PAUL HOFFMAN'S WILD DREAM. UNFORTUNATELY THERE HAS BEEN A PRICE. RAPID AND, IN SOME CASES, UNCONTROLLED GROWTH ALWAYS EXACTS A PRICE. THAT PRICE FOR THE UNDP HAS BEEN A DRAWDOWN OF THE OPERATIONAL RESERVE, AN ACCUMULATION OF RECEIVABLES, AND AN URGENT NEED TO ACHIEVE FULL UTILIZATION OF ACCUMULATED CURRENCY. VITAL PROJECTS IN LIMITED OFFICIAL USE

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PAGE 05 STATE 179843

MANY COUNTRIES ARE BEING DELAYED OR ARE NOT ABLE TO COMMENCE. WE ARE ENGAGED NOW IN STRONG MEASURES TO PROTECT THE INTEGRITY AND FINANCIAL SOLVENCY OF UNDP, IN ORDER TO PROCEED WITH THE PROGRAMS THAT HAVE BEEN PLANNED.

AND THUS MR. PRESIDENT, AN AMERICAN PROPOSAL WHICH WE HOPE WOULD BE CONSIDERED TO BE HELPFUL IN THE SITUATION.

THE ACCUMULATED NON-CONVERTIBLE CONTRIBUTIONS FROM ALL SOURCES MADE TO UNDP AMOUNTED TO ABOUT DOLS 30 MILLION AS OF DECEMBER 31, 1975. THESE CONTRIBUTIONS REPRESENT A VARIETY OF CURRENCIES AND ARE WORLD-WIDE IN THEIR GEOGRAPHIC REACH. THEY CANNOT NOW BE USED FOR THE PAYMENT OF GENERAL BILLS. IF THESE FUNDS WERE AVAILABLE, THEY WOULD SOLVE THE CURRENT LIQUIDITY CRISIS FOR 1976.

THE UNITED STATES WOULD BE WILLING, DEPENDING ON ITS NEEDS, TO PURCHASE FROM UNDP ACCUMULATED NON-CONVERTIBLE CURRENCY HOLDINGS SIGNIFICANT QUANTITIES OF CURRENCIES OF VARIOUS NATIONAL ORIGIN, PROVIDED:

A) THAT THE COUNTRIES OF ORIGIN OF THE ACCUMULATED
NON-CONVERTIBLE CURRENCIES WOULD AGREE TO ALLOW THE
UNITED STATES TO USE THE CURRENCIES IN THE COUNTRIES
OF ORIGIN WITHOUT RESTRICTION, AND

B) THAT THE RATES OF EXCHANGE FOR PURCHASE OF
THESE CURRENCIES FROM THE UNDP WERE AT LEAST AS FAVORABLE
AS THE RATES OF EXCHANGE AT WHICH WE COULD BUY THESE
CURRENCIES IN THAT COUNTRY OF ORIGIN.

MY DELEGATION ALSO EXPRESSES THE HOPE THAT OTHER
DONOR COUNTRIES WHICH GIVE CONVERTIBLE CURRENCY TO UNDP
WOULD ENDEAVOR TO TAKE SIMILAR STEPS TO REDUCE UNDP
HOLDINGS OF NON-CONVERTIBLE CURRENCIES.

IT IS AN OFFER WHICH IS WORLD-
WIDE IN ITS SCOPE, AND ANY NUMBER OF NATIONS CAN
PARTICIPATE IN THE PROGRAM.
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PAGE 06 STATE 179843

IT SEEMS TO MY DELEGATION A SIMPLE, STRAIGHTFORWARD
WAY, 1) TO SOLVE THE LIQUIDITY CRISIS OF UNDP AND 2)
TO MAKE IT POSSIBLE TO BEGIN IMMEDIATELY TO REPLENISH
THE OPERATIONAL RESERVE. MY DELEGATION IS PREPARED TO
ENTER APPROPRIATE CONSULTATIONS WITHOUT DELAY WITH ANY
OTHERS WHO WOULD SEE THIS PROPOSAL AS USEFUL.

LET US ACT NOW TO PUT UNDP'S HOUSE IN ORDER AS
WE BEGIN THE SECOND DEVELOPMENT CYCLE. UNQUOTE KISSINGER

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